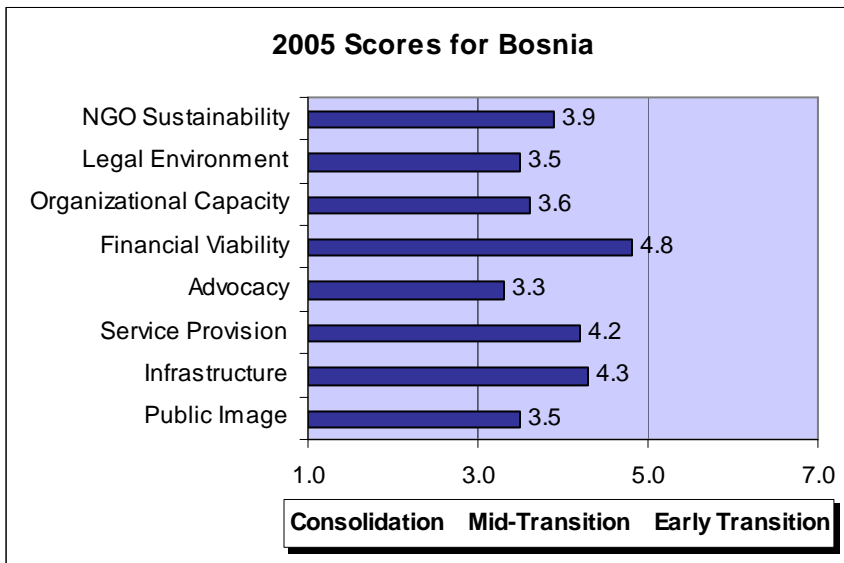


Bosnia And Herzegovina



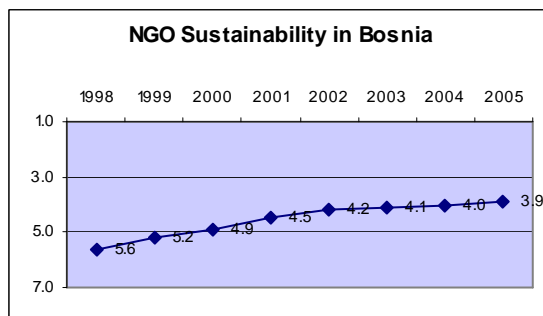
Capital: Sarajevo

Polity: Federal
Democratic Republic

Population:
4,498,000

**GDP per capita
(PPP):** \$6,800

NGO SUSTAINABILITY: 3.9



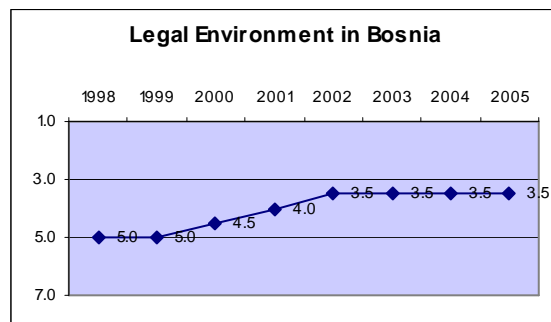
In 2005, the NGO sector in Bosnia and Herzegovina accelerated the improvement of its overall sustainability. Each of the dimensions improved over previous years, some dramatically so. The improvements are the result of the increased effectiveness of NGOs, rather than improvements to the external environment in which they operate. This is reflected in the score for the Organizational Capacity dimension, which showed the greatest improvement and affected other dimensions, including Financial Viability, which remains the most tenuous. The improvements are also the result of greater cooperation among NGOs, as

well as between NGOs and the government, which increased the sector's activity and legitimacy.

Despite these improvements, the sector still faces many challenges. The Financial Viability dimension remains the weakest, as NGOs depend heavily on the international donor community. Organizations have begun to diversify their funding sources in an effort to counteract the withdrawal of international donor funding, which would otherwise cause the NGO sector to contract. In addition, cooperation between NGOs and the business community is minimal.

Approximately 7,000 local associations, foundations, and organizations are registered in BiH. Of those, one-half are active. Only 229 organizations and associations are registered at the state level, while others are registered only at the local level.

LEGAL ENVIRONMENT: 3.5



The score for the Legal Environment dimension did not change over the past year. Bosnia has three governing bodies, the State, the Federation, and the Republic of Srpska (RS). All three have laws that affect NGOs and will be discussed separately.

State Level

The 2001 State Law on Associations and Foundations helped to create a favorable legal environment for NGOs operating throughout BiH. However, NGO registration has been inconsistent since the inception of the law, a trend that continued through 2005. The registration authority denied numerous umbrella organizations and trade unions registration on the grounds that they are not technically associations. The law and implementing regulations are vague on a number of important points, which contributes to inconsistent regulation. In addition, registration officers often abuse their authority. In the absence of written instructions and documented procedures, registration officers are able to deny applicants for reasons such as submitting their applications at an inconvenient time.

As the separate governing bodies have jurisdiction over taxation, the state does not have any tax laws, other than a new VAT Law that will come into force January 1,

2006. The impact of the new VAT on NGOs remains unknown. Organizations may generate income by providing goods and services, though the tax treatment of their income is unclear. NGOs may engage in economic activities, but

the income generated by a separate corporation created by an NGO is limited to 10,000 KM, or a third of the organization's budget, whichever is higher. NGOs may compete for government contracts.

Laws adopted in 2003 restrict donations by public sector companies to gifts that support athletics, culture, social welfare, and humanitarian purposes. Such donations are subject to numerous procedural restrictions to safeguard public funds. Another barrier for many organizations, especially those in the rural areas, is the dearth of lawyers who are both trained in NGO issues and affordable.

Federation of Bosnia and Herzegovina

Registration at the Federal level continues to be inconsistent. Officials often exercise too much discretion in making decisions concerning requests for registration, and organizations are regularly denied registration when their goals are thought to be insufficiently "serious." Similarly, supervision remains inconsistent, and inspections, especially of humanitarian organizations, are often conducted without timely notice.

The tax laws governing NGOs remain unchanged. Corporate donations for amateur sports, or to support humanitarian, cultural, educational, scientific causes, are deductible, but only up to 0.5% of a business' gross income. Donations to NGOs that pursue other public benefit activities do not appear to be deductible. A separate provision allows businesses a deduction of 0.5% of gross income for representation costs, and this provision is considered broad enough to cover sponsorship payments. Membership fees and contributions to professional associations and political parties are deductible up to 0.1% of a business' gross income. Both foreign and domestic grants are in practice exempt from taxes.

The new Personal Income Tax Law allows taxpayers to deduct up to 0.5% of gross income for donations that support recognized public benefit activities. In addition, a donor may take

a deduction if its donation is approved by the competent ministry and supports specific programs deemed to be for public benefit. Though NGOs may generate income by providing goods and services, they must create a separate corporation to engage in all economic activities. All profits from such corporations are taxed at 30%. Only those services provided by religious and humanitarian organizations in realization of their statutory goals are tax exempt. NGOs may compete for government contracts.

Republic of Srpska

In 2005, the RS National Assembly enacted amendments to the Law on Associations and Foundations, creating the criteria and procedures for attaining public benefit status. It is yet unknown whether public benefit status will provide any tangible benefit for organizations, given that the tax law supercedes any tax benefits offered by these amendments. A new draft law on donations to public enterprises and institutions, if passed, will further regulate donations to associations with public benefit status, but not foundations. The draft law seems to make public benefit an imposition by the government rather than a mechanism by which to attain favorable conditions.

Corporations may deduct up to 1% of gross income for donations that support humanitarian, cultural, educational, sports activities. They may also deduct up to 1% of gross income for membership fees and contributions to professional associations. Donations made to support other activities are not tax deductible, even if made to a public benefit organization. Representative costs that cover NGO sponsorship payments are deductible up to 3% of a legal person's gross income. There are no deductions for donations made by individuals.

NGOs may engage directly in economic activities related to their statutory purposes, including the provision of goods and services. All "legal entities," including NGOs, are subject to a 10% tax on profits. Only those legal entities engaged in "labor and professional rehabilitation, and employment of disabled persons" are exempt. In addition, services provided by religious and humanitarian organizations in realization of their statutory goals are tax exempt. Both foreign and domestic grants are in practice exempt from taxes. The tax authorities apply the tax law inconsistently. NGOs may compete for government contracts.

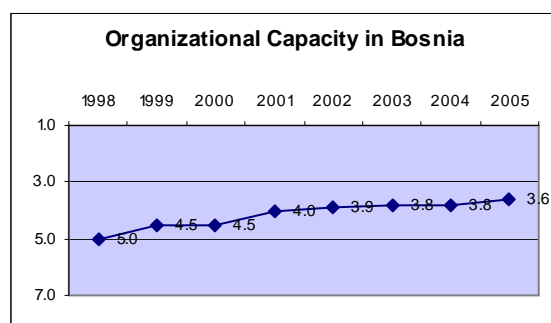
ORGANIZATIONAL CAPACITY: 3.6

In both rural and urban areas, the NGO sector has improved its organizational capacity dramatically over the past year. At least one-third of all organizations are reported to be "professional organizations" with fully equipped offices, internet access, organizational charts, proper allocation of responsibilities, diversified funding, and transparency. In general, organizations have a greater capacity for building constituencies and engaging the communities that they serve. All of the well-developed and many of the smaller organizations have boards of directors whose role and responsibilities are distinct from those of the staff. The April 2005 "Qualitative Study: Employment, Social Service Provision, and the Non-governmental Organization Sector"

published by DFID reports that on average, NGOs employ ten full-time staff and seven part-time staff. The study also reports that 42% of all organizations surveyed have a full-time staff, which represents 2.3% of the active work force. On average, each organization has 44 volunteers, representing 5.36% of the active workforce.

Project strategies increasingly include public participation and building community awareness, as well as special efforts to include local youth. With a new emphasis on the needs of their constituents, organizations are remaining true to their strategic goals rather than adapting them to qualify for new proposals. NGO staff members have greater skills in

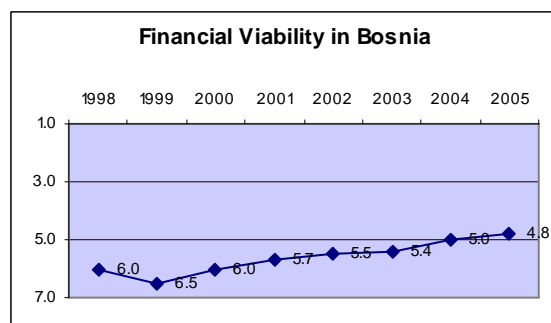
drafting effective project proposals, addressing donors, and communicating with local government officials. These efforts are all important steps towards improving the sustainability of both individual organizations as well as the entire sector.



Financial barriers continue to impede the organizational capacity of most NGOs, in part limiting their ability to pay for professional services such as auditors and lawyers. In addition, many organizations are underdeveloped in other areas such as strategic planning, public relations, and effective and transparent management. The sector is in need of training and continued capacity building from both the international and domestic NGO community.

FINANCIAL VIABILITY: 4.8

While it remains the weakest dimension, NGOs made significant progress in overall financial viability over the past year. One improvement is that organizations have stronger relations with municipal governments. Another, related to improvements in the Organizational Capacity dimension, is the more advanced financial management skills and knowledge among NGOs. Overall, organizations have adopted adequate accounting systems, internal monitoring mechanisms, different bank accounts for different donors, and the means to monitor their labor expenses. The NGO Expert Committee found that the more well-developed organizations conduct regular audits and publish their annual reports.

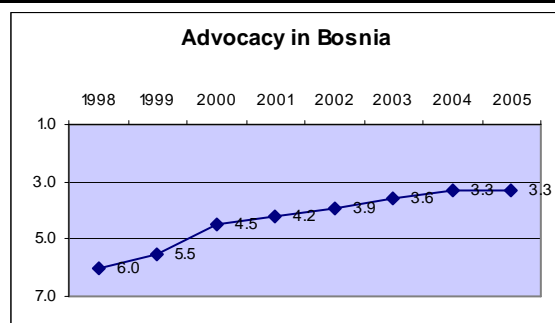


donations. Corporate philanthropy, however, remains stymied by unfavorable tax laws and a stagnant economy. While corporations have supported specific projects for sick children and orphans, they have yet to contribute to advocacy, watchdog or other democracy-building initiatives. Individual and corporate giving is slowly increasing, especially for humanitarian, cultural and sports activities. Numerous companies are beginning to develop corporate social responsibility strategies as a marketing tool. NGOs are unaware of the general principles of corporate responsibility and therefore, do not apply the pressure necessary to increase corporate philanthropy.

Organizations have improved their fundraising and diversified their funding sources. These improvements are enabling organizations to survive the drop in international funding, which would have otherwise posed significant setbacks. The tax laws remain a barrier to financial viability, as does the lack of transparency at the higher levels of government, including the Cantonal, Entity and State levels. Cooperation between NGOs and municipal governments has improved, though municipal funding remains inadequate considering the role that NGOs often play in meeting the basic needs of Bosnian citizens.

Domestic NGOs have made private philanthropy, which had been promoted by international organizations in the past, a top priority and have had some success in increasing

ADVOCACY: 3.3

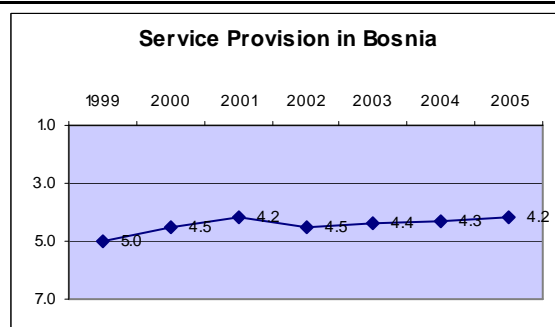


NGO advocacy efforts improved both in visibility and the number of stakeholders involved. Organizations have played a role in writing and reforming new laws in the areas of disabilities, cantonal social care, and gender and domestic violence. Local NGOs have begun approaching larger national organizations for assistance in advocating for issues that originated at the local level. This outreach by local NGOs is a reflection of increased

mobilization of local citizens. NGO coalitions have also improved, growing in both strength and size. The Coalition to Work and Succeed Together is noteworthy for its efforts to develop a cooperative agreement between the Council of Ministers and the non-profit sector.

Despite these improvements, NGOs continue to miss opportunities to work together. Throughout Bosnia, many grassroots organizations are working on similar issues, but few collaborate. Advocacy efforts, including those of the Coalition to Work and Succeed Together and the Working Group for the Law on Volunteers, have resulted in few concrete results or legislative changes. Expertise in advocacy is concentrated within a few leading national organizations. Smaller NGOs are generally not staffed with professionals who have the expertise necessary to conduct effective advocacy efforts.

SERVICE PROVISION: 4.2



The Service Provision dimension continued to improve over the past year. With greater frequency, local governments invite NGOs to assist them with drafting policy papers for municipal planning and development, putting

together project proposals for international funding, and reaching out to citizens. The Poverty Reduction Strategy Report led to the government's recognition of NGOs as partners in addressing social welfare needs.

The government does not take advantage of NGO experience in areas such as health and reconstruction, instead taking that work onto itself. Efforts in these areas are resource intensive and the government is not willing to provide the funding necessary for NGOs to become involved. State and Ministry officials rely more on international organizations for implementation of their projects than local organizations.

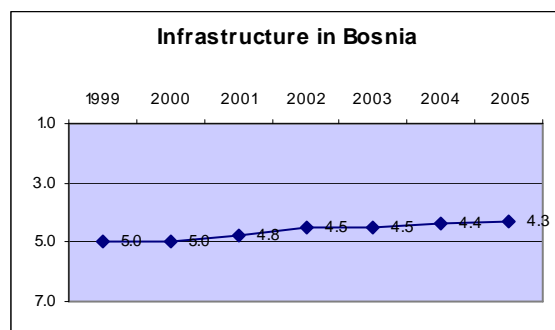
INFRASTRUCTURE: 4.3

The NGO community also made progress in the Infrastructure dimension. Intermediate support organizations and the more developed NGOs included smaller organizations in their joint initiatives. The new Center for Civil Society Promotion opened and became fully operational in December 2005. The Center maintains the first electronic database of local

NGOs in BiH, provides legal and financial management services, facilitates information sharing, and offers a library of materials for NGOs. Prominent local NGOs have developed culturally appropriate training programs in the local language, focusing on activities such as writing proposals, managing projects, monitoring and evaluation, and the mobilization

of local resources. These larger national organizations are also reaching out to regional networks. NGO coalitions have become more inclusive, and have improved their effectiveness. Although these coalitions help facilitate information sharing within the sector, the lack of NGO resource centers prevents the regular and effective exchange of information.

Partnerships with the other sectors continue to be weak, despite some slight improvements. NGOs have particularly weak relations with the media and business community. Local grant-making organizations operate throughout Bosnia, and while they have diversified their funding sources, they primarily re-distribute grants from international donors.



PUBLIC IMAGE: 3.5

Over the past year, NGOs have increased their overall visibility, but especially that of their work. The media has been more willing to cover NGO activities and some organizations have taken advantage of the coverage to inform the public of their day to day activities. With greater frequency, media is seeking out NGO leaders to comment on NGO activities as well as on larger social issues.

Over the past year, NGOs have increased their overall visibility, especially with regards to their activities. Lacking public relations skills and the ability to express their ideas clearly, many organizations have failed to convert the increase of publicity into an improved public image. NGOs have also failed to improve their standing with the business community. While corporations have begun cooperating with NGOs on humanitarian, cultural and sports initiatives, they are motivated by marketing and public relations and less by desire to serve local communities.

